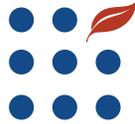




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# Understanding the Food Stamp Benefit Formula

## A Tool for Measuring the Component Effects

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### Abstract

This report develops an accounting tool for measuring how the average benefit amount in the U.S. Food Stamp Program is affected by each major component of the rules that determine the benefit level. This tool is used to compare the benefits received by different subpopulations, distinguished by poverty level, demographic makeup, household size, and region of the country. This simple decomposition complements more complex tools, such as microsimulation methods, which help policy analysts understand and evaluate the effects of detailed Food Stamp Program regulations.

### Keywords

Food Stamp Program, benefit formula, income, household size, poverty status, deductions

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# Contents

	<i>page</i>
Summary . . . . .	iii
Introduction . . . . .	1
Food Stamp Benefit Formula . . . . .	3
Program Rules . . . . .	3
A Mathematical Statement of Program Rules . . . . .	3
A New Decomposition of Food Stamp Benefits . . . . .	4
More Detail on the Deductions Effect . . . . .	5
Empirical Analysis . . . . .	7
Data . . . . .	7
Full Sample . . . . .	7
Income Groups . . . . .	8
Demographic Categories . . . . .	9
Food Stamp Unit Size . . . . .	10
Census Regions . . . . .	12
Discussion . . . . .	13
References . . . . .	14
Appendix A: Proofs . . . . .	15
Appendix B: SAS Software Program . . . . .	16

## List of Tables

<i>Table</i>	<i>page</i>
1. Monthly food stamp benefits for two-person households in the continental United States . . . . .	2
2. Components and subcomponents of total food stamp benefits . . . . .	4
3. Composition of mean per capita benefits, by gross income category of food stamp unit . . . . .	8
4. Composition of mean per capita benefits, by demographic category of food stamp unit . . . . .	10
5. Composition of mean per capita benefits, by food stamp unit size . . . . .	11
6. Composition of mean per capita benefits, by census region . . . . .	12

## Summary

This report develops an accounting tool for measuring how the average benefit amount in the U.S. Food Stamp Program is affected by each major component of the food stamp benefit formula. This formula is the set of rules that the Federal Government uses to determine the amount of program benefits available to each participating household, based on income and other characteristics. Using this formula, \$16 billion in food stamp benefits were distributed in 1999, providing food assistance to more than 18 million low-income Americans.

The Federal Government chooses a benefit level such that benefits plus a proportion of cash resources suffice to purchase a certain bundle of foods, defined in the Government's Thrifty Food Plan. In general, each eligible household receives the maximum benefit based on its household size, minus 30 percent of net income. Net income equals the household's total cash income from earnings, welfare, and other sources, minus certain allowable deductions. If the allowable deductions exceed total cash income, net income is simply zero. There is also a minimum benefit of \$10 for households with one or two members. The effects of the maximum benefit, the minimum benefit, cash income, and deductions interact in a complex way, so it is useful to have a tool for quantifying these effects.

Food Stamp Program Quality Control data from USDA's Food and Nutrition Service are used in this report to study the national food stamp population in 1998. Using these data, the average monthly food stamp benefit per person (\$69.25) may be expressed as the sum of the average maximum benefit per person (\$112.70) plus four main component effects, which may be positive or negative: an income effect (-\$89.27), a deductions effect (\$50.35), a maximum benefit effect (\$-6.78), and a minimum benefit effect (\$2.25).

Using this accounting tool, this report compares and analyzes the benefits received by food stamp participants with different poverty levels. Average per person benefits do not decrease as steeply with income as one might expect from a simple reading of the official benefit formula, which has a benefit reduction rate of 30 percent. Near-poor households, with cash income between 100 percent and 130 percent of the poverty guideline, receive more deductions than do very poor households, with cash income below 50 percent of the poverty guideline.

Likewise, near-poor households have their average benefits raised by \$17 due to the minimum benefit rule, while very poor households receive no help from this rule. These effects partially offset the income effect, which produces lower benefits for near-poor households in comparison to very poor households.

The report makes similar comparisons for subpopulations distinguished by demographic makeup, household size, and region of the country. The simple decomposition developed here complements more complex tools, such as microsimulation methods, which help policy analysts understand and evaluate the effects of detailed Food Stamp Program regulations.